Committee on Resources

Testimony

Subcommittee on Water and Power
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U.S. House of Representatives
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Mr. Chairman, I am James N. Smith, Executive Director of the Council of Infrastructure Financing Authorities (CIFA). CIFA is a non-profit association representing state and local public finance authorities. Members have the capacity to issue debt for infrastructure financing and most administer at least the financial aspects of the State Revolving Loan Funds for wastewater and drinking water facility financing. I am pleased to be here today to describe that program and its successful operation to the Committee.

Change to Loan Financing

In 1987 the Clean Water Act was amended to alter the fundamental approach to financing municipal wastewater treatment improvements. The construction grant program, which had provided grant assistance for municipal wastewater treatment projects, was transformed into a revolving loan program. Capital grants are made to each state, matched with a 20% state contribution, to provide a source of low-cost borrowing for localities to finance their wastewater treatment needs. Managed as a revolving loan fund, with the repayments of principal and interest returning to the fund to be lent again, Congress envisioned a loan fund that could effectively operate in perpetuity -- providing low-cost financing well into the next century.

In addition, Congress provided one other unique feature which has proven to greatly enhance the growth and lending capacity of the SRFs -- that is the capacity to leverage the dollars in the fund by borrowing in the municipal tax-exempt market. This capability to leverage the fund is one of the most innovative and successful features of the SRF. About one-half of the States have used this funding device to increase their lending capacity, and a number of other states, while not directly leveraging the federal dollars, combine the SRF fund with state funds which are leveraged in the bond market, also increasing the overall pool for lending. Some states leverage their funds at ratios as high as 4:1. I mention this because it is an example of the flexibility and ingenuity that can be demonstrated in the management of these loan funds.

Together, the total Clean Water SRF lending pool, according to recent EPA data, has grown to approximately $22 billion dollars. Through state match, fund leveraging and the return flow of interest and principal back to the fund, the federal capital contribution of approximately $11 billion has been more than doubled. Over 4,400 low-interest loans have been made, 1,000 of these in just the past year. Even in the face of a year (1995) of unprecedented uncertainty with regard to the reliability of EPA appropriations, state lending rates accelerated with the 50 States and Puerto Rico committing 80% of available loan funds. (See attached table for state-by-state detail).

SRFs are a true success story with loan repayments approaching $1 billion a year, returning to the fund to be relent. Moreover, the loan process is far more efficient than the previous grant program. Loan financed projects are more efficiently and economically designed and more quickly constructed. EPA estimates that the federal dollar, delivered through the loan program, has four times more buying power than the grant, in terms of projects constructed.

Does the SRF loan prototype have potential for application to other types of infrastructure investment?

Obviously, as a loan program, the SRF is most adaptable to those types of financings with a revenue stream for repayment, such as public utilities. Congress, in last year's reauthorization of the Safe Drinking Water Act, created a State Revolving Loan Fund to finance needed public drinking water supply improvements. But the concept is being advanced for other types of capital investment, as well. The State Infrastructure Banks (SIBs) created by the National Highway Designation Act of 1995, initiate a system of loan project financing. The state loan fund approach would also be an allowable component of the Administration's proposal to assist communities in financing school construction and improvements.

I am not closely familiar with the project cost allocation and repayment requirements of Bureau of Reclamation's water projects, so I am not prepared to provide an opinion on the adaptability of the revolving loan fund, especially with its leveraging capacity, to those types of projects. However, I am willing to provide the Committee and its staff with any additional information you may wish on the SRF operations, or answer any questions you may have.

Thank you for the opportunity to provide this information to the Committee.

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